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Government
Publications

Ontario. Legislative assembly (Committees)
Select committee on consumer credit
Hearings

SELECT COMMITTEE ON CONSUMER CREDIT

Proceedings of the hearings at
Banking Department Offices,
New York, N.Y. on the 13th day
of January, 1965.



PRIVATE & CONFIDENTIAL



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

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L. F. SCHROEDEL

Supervising Bank
Examiner

MRS. ANNE J. MATHES

Associate Attorney
(Banking)

B. I. RAPPAPORT

Senior Sales Finance
Representative

D. GELB

Sales Finance
Representative

D. J. KAVANAGH

Senior Bank Examiner



1 MR. SCHROEDEL: I want to introduce you
2 to the first Deputy Superintendent, Mr. E. Virgil Conway.
3 I am responsible to him in the administration and
4 supervision of banking.

5 MR. CONWAY: I want to say a few words of
6 welcome and to tell you what a pleasure it is to have
7 you people down here. When Mr. Harcourt called and asked
8 if the committee could come down and discuss this with
9 our people in the department we were more than happy to
10 oblige, and I am sure you are going to gain a lot of
11 information as to how our law works, and some of the
12 problems we have in the sales finance field. I am sure
13 what you learn today will give you some guidance as to
14 what to recommend to the Province's Legislature. I am
15 sorry I'm not going to be with you throughout the meeting
16 but I am very happy to turn it over to our very able
17 examiner in charge of the Sales Finance Division, and
18 he has with him members of his staff, our legal staff
19 and members of our licensed lenders section, who I am
20 sure will be able to cover all the questions and problems
21 you have.

22 MR. SCHROEDEL: I would like to reiterate
23 the greetings of welcome to you. As you know I am the
24 supervising bank examiner in charge of the banking
25 department. Before we continue I would like to introduce
26 to you Mrs. Anne Mathes who is an associate attorney on
27 banking, and on my right, Mr. Benjamin Rappaport, he is
28 in charge of the office staff and field staff. On my
29 left is Mr. David Gelb, he deals mostly with complaints
30



1 legal technicalities and rate charts. He is also a
2 lawyer, a retired lawyer. On my far left is Mr. Donald
3 Kavanagh. He is a senior bank examiner. He is in charge
4 of licensed lenders.

5 Possibly the best way to get the information
6 you seek might be to conduct a question and answer session,
7 but first let me acquaint you with New York State's
8 method of governing the financing of consumer goods and
9 services and give you a brief review of our methods of
10 supervision. In front of you there is an envelope of
11 booklets, these are reprints of statutes and other
12 publications. I would like to call your attention to
13 the statutes relating to retail instalment sales. This
14 booklet was revised and contains amendments to our laws,
15 1964 legislative session. The Act contains a section
16 related to full disclosure of all terms and conditions
17 of a transaction. These terms and conditions must be
18 disclosed prior to the extension of retail instalment
19 credit and prior to the execution of the retail instalment
20 instrument. The Act is designed to establish maximum
21 credit charges which may be levied. It is required to
22 give a mandatory refund of the credit service charge on
23 prepayment of the obligation, and the elimination or
24 enforceability of certain unconscionable and abusive
25 contract provisions. Section 9 and section 301 gives
26 a definition of the various terms used in the Act. This
27 was first enacted in 1956. This is basically a protection
28 against unscrupulous and fraudulent dealers, and a
29 protection for the uninformed and careless purchaser.
30



1 In 302 it spells out the requirements of a retail
2 instalment contract, what the contract must contain, the
3 conditions and terms. 304 provides for cancellation of
4 the contract. 305 deals with the credit or refund to
5 be made in case of an anticipation of the obligation. It
6 also provides the manner in which the total balance should
7 be calculated. 306 deals with refinancing of an
8 obligation or contract. 307 provides for penalties in
9 case of a violation, and the balance are other legal
10 requirements. As the banking division examined this
11 article in the broad field of credit financing it found
12 complaints of improper practices from buyers of all
13 sorts of goods, not merely limited to motor vehicles but
14 to furniture, appliances and repair work, which resulted
15 in the legislature of article 10, or briefly called, the
16 All Goods Act. Article 10 of the personal property law
17 is similar to article 9 except that it covers retail
18 sales of goods and services and revolving credit plans
19 which are in use at department stores and even small
20 merchants in New York State. 401 deals with the various
21 terms used in the Act. 402 specified what the Act must
22 contain, what the contract must contain. 403 puts
23 restrictions on what the contract may not include. One
24 of the things it may not include is a wage assignment.
25 404 deals with the maximum credit charge which may be
26 levied on a transaction. It also provides for a certain
27 minimum. 405 deals with the delivery of a contract or
28 obligation and the buyers acknowledgment of it's receipt.
29 406 is a notice of assignment where applicable, if the
30



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1 dealer is not holding his own paper, and assigns it to a
2 sales finance agency, notice of assignment must be given.
3 408, here again we have the basis of the calculation on
4 a refund of anticipation. 409, is refinancing, the terms
5 on which it may be refinanced. 410, add ons and consol-
6 idation deals with multiple purchases of articles from
7 the same dealer where there might be more than one
8 contract. 411, spells out the terms of purchase on
9 these retail instalment contracts to a financing agency.
10 It may be a large corporation such as General Electric
11 or Westinghouse. 412, we have a cancellation provision
12 in the case of prepayment. 413, deals with our revolving
13 credit plans, retail instalment credit agreements, and
14 the balance are penalties. 412, deals with security on
15 other goods subject to the contract, and tells in what
16 manner such goods may be taken. These govern almost all
17 transactions in the retail field. However, they require
18 someone to supervise and administer these articles. After
19 the passage of the motor vehicle section, article 9, the
20 legislature enacted what we call article 11 B, that is
21 on page 36. It is referred to as the licensing statute.
22 Basically it requires that those who hold or acquire
23 retail instalment instruments must be licensed. On page
24 37, I would like to call your attention to this. The
25 term includes a retail seller or someone engaged in
26 whole or in part in the business of holding retail
27 instalment contracts of \$25,000.00 or more at any one
28 time. These licenses are granted by the department for
29 a period of one year. Individuals who wish to continue
30



1 to hold such agreements must apply for renewal. In the
2 year 1964, we issued something like 565 licenses to
3 various individuals, partnerships, corporations and the
4 like. I would like to refer again to the beginning of
5 this article, 9 B. Here again, 491 gives a definition
6 of motor vehicles. 492 is the financing section, the
7 conditions required in the application. Among your
8 papers are instructions regarding the violation of an
9 application for a license, under 9 B of the banking law.
10 Under the instructions you will find a form or application
11 for a license. These are the requirements, what must
12 be required, background information as well as information
13 regarding any stockholder or partner. This is the basis
14 on which the superintendent will consider when he commences
15 his investigation of the individual applying for the
16 license. 493, deals with determining the character of
17 the applicant such as to command the confidence of the
18 community and to warrant the belief that the business
19 will be conducted honestly and fairly and within the
20 purpose and intents of this license. Upon this evidence
21 the license may be issued. 495, contains provisions
22 for suspension or surrender of a license. 496, such
23 decisions or hearings are subject to judicial review.
24 497, grants the superintendent the power to investigate,
25 make examinations of any licensee as he might see fit, or
26 any other person in connection with either a complaint
27 or suspected of violating the provisions of the articles.
28 498, hearing and investigations and gives him the power
29 to subpoena. 499, specifies violations and penalties
30



1 for violations, and other illegal acts. I would like
2 to call your attention, however, to the regulations of
3 the superintendent of banks. Most laws in New York State
4 affect the banking department. The superintendent has
5 been given authority to formulate various rules and
6 regulations to supplement the law. These have the power
7 of law inas much as they were passed by the legislature.
8 They are required to be filed by the Secretary of State
9 and all those licensed by the department are bound by
10 those regulations. I will also give you the statutory
11 authority under banking, 11 B. This is to assure us
12 that the date on any transaction acquired by a sales
13 finance company will be such as to be readily identifiable.
14 This is nothing more than what any sound bank would do.
15 65 A, is the filing of rate charts and agreements with
16 the department. If a licensee distributes rate charts
17 or forms of agreement they are required under the
18 regulations to file them with the department. In the case
19 of rate charts we review them for adherence to the Statute
20 of Limitation. The agreements are reviewed for complaints
21 or violation of the provisions of article 9 and 10.
22 In 65(3), it deals with unauthorized misrepresentation
23 of their license. They may only specify their license
24 pursuant to this article and nothing more. In 65(4),
25 where required to be notified of all changes in directors,
26 officers and stockholders. We come back to the licensing
27 authority and where changes do occur we make the investi-
28 gation for qualification of those individuals for a
29 license. 65 (5), any report of arrest, indictment or
30



conviction. This we feel is important because one of the grounds for suspension of a license involves conviction for felonies, particularly indictments, and violations of those articles. On page four we have 66. In general terms these are ground rules set up for procedure and a manner of conduct in connection with complaints. For a time, after the effective date of licensing, the inspection of the licensees and records was rather archaic, and because of the number of complaints, in 1961, the policy of the department was changed and it is now designed to conduct periodic inspection of the licensee for compliance of the applicable law and regulations. We have additional staff who travel from here to Buffalo and Syracuse where the licensees are usually centred. The representatives on their visits don't perform an audit nor do they perform an examination. It is merely a test of the directives and contracts in the possession of the licensee or those received while he is on the premises, so that he is able to note compliance to articles 9 and 10. I have given you here in this pack, this confidential report of this sales finance company. As you may observe the first two pages are basically general information and a series of questions. These questions are designed to alert the representative to the areas to be checked as to the compliance to the laws and regulations, but not necessarily confined thereto. He may have occasion on his visit to a licensee on a complaint that may involve procedure on their part. It may be a failure to do certain fundamental things. He



1 can expound on it. On page three it is shown to us he
2 can also furnish any supporting data he notices or
3 observes there. This is a list of the kinds of trans-
4 actions which he observed in his review containing
5 violations. We have them enumerated on the side with
6 a legend from A to Z and these are the ones most frequently
7 observed. Upon receipt of this examination or test the
8 office reviews their accuracy and has a copy of this
9 typed. The typed copy is sent with a letter to the
10 licensed entity. The letter may often highlight some
11 of the most glaring irregularities noted by the examiner.
12 We advise they take steps and also to advise us as to
13 what steps they have taken to correct not only these
14 particular irregularities noted but to alter their proced-
15 ure so that they don't recur in the future. Where there
16 have been improper charges, I am talking about service
17 credit charges, we require the licensee to go back to
18 the date of the previous examination which may be a year
19 or a year and a half to examine all contracts acquired
20 in his possession to determine on which of those there
21 were improper or excessive charges and make refunds on
22 such items and to supply us with a list which would contain
23 the name and address of each consumer affected, also the
24 amount and date of any refund or adjustment granted to the
25 account, and further a statement to the effect they know
26 other accounts exist upon which an excessive or improper
27 charge has not been refunded. We index those letters and
28 prior to renewal time we review the examination and those
29 letters on compliance by the licensee. If they fail to
30



1 comply we withhold his license until compliance is made.
2 There are many hours in the day spent in referring to
3 and investigating complaints. These complaints are made
4 in person or received in the mails. Then they are
5 referred to us by other agencies, particularly by the
6 Better Business Bureau, Legal Aid Society, even the
7 Attorney General or local district attorney. It may be
8 interesting to you to know in 1964 the division handled
9 well over three thousand inquiries and complaints in
10 this field. As a result of our investigations we have
11 been able to refund some \$39,000.00 which benefitted
12 nearly 3,400 consumers. This has been on the rise ever
13 since licensing became effective. One of our principal
14 objects in the administration and supervision of this
15 area is the correction of abuses. I would also give
16 equal emphasis to their prevention, and along this line
17 we have given top priority to our educational levels.
18 I think you will agree this an important field and to
19 this end we have prepared what we call, KYR, know your
20 rights. This booklet in the space of eleven pages
21 highlights the principal provisions of the laws effecting
22 retail instalment purchases and spotlights through
23 illustrations the major consumer protective provisions.
24 It is written in an easily understandable manner, and
25 the book cover includes a chart by which the consumer
26 may calculate a refund on the prepayment of an obligation.
27 Since it's publication there have been well in excess
28 of 30,000 copies distributed in the State. During last
29 summer when the Worlds Fair was operative in Flushing
30



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1 Meadows, some ten thousand copies were distributed at
2 the New York State Pavilion. As to the last three
3 publications in your kits, this one here, the illustrated
4 brochure, tells the story, a historical background of
5 the banking department in the State. I just call your
6 attention to page 20 of protecting the consumer. These
7 two heavy booklets are as you can see annual reports
8 of the superintendent of banks, 1963-64. It summarizes
9 for the Governor and the legislature of New York State the
10 activities of the banking department for each of these
11 periods. It covers briefly the history and intent of
12 sales finance laws, how the statutes are administered
13 and supervised in the State. Now, if you have any
14 questions I and my colleagues will do our best to give
15 you our experience with the law and its regulation.

16 MR. SEDGWICK: As to your examinations are
17 they spot or regular. Say on a complaint only, do you
18 spot check your licensees or do you have an annual
19 examination?

20 MR. SCHROEDEL: We try to make it an
21 annual examination, but it is not required under the law.

22 MR. SEDGWICK: May I assume when you get some
23 complaints you make a special visit?

24 MR. SCHROEDEL: We may make a special visit.
25 That's what I tried to bring out, it's not merely
26 confined to this form, he can extend his field if we
27 deem it necessary.

28 MR. SEDGWICK: Then the licensee makes an
29 annual report on one of those forms?
30



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1 MR. SCHROEDEL: No, the licensee doesn't
2 make an annual report. There is no requirement for a
3 sales finance agency to make an annual report.

4 MR. SEDGWICK: As you know we have been
5 worrying about this business of stating charges as a
6 simple annual percentage rate, and we spent sometime in
7 Washington with both Senator Douglas and Senator Bennett
8 on it. I know that you don't have any legislation that
9 calls for the statement of charges as an annual percentage.
10 Did you consider it at any time?

11 MR. SCHROEDEL: I don't know whether or
12 not the legislature had considered it at the time they
13 enacted such legislation. I think Mr. Gelb could answer
14 that.

15 MR. GELB: In conjunction with the original
16 legislation back in 1956 and in 1957, there was set forth
17 the percentage on an annual basis, but unfortunately,
18 there was such a to do about stating such a percentage
19 in each individual contract that the purpose would be
20 mitigated by merely setting forth the dollar amount. It
21 was based on the arguments that the average instalment
22 buyer has faith where dollars and cents is concerned but
23 is generally ignorant about percentage rates, and inasmuch
24 as different types of instalment buying such as revolving
25 credit which operates on the monthly basis and contracts
26 which operate on the annual basis would be comparable to
27 apples and oranges. It would not serve the consumer
28 to know the true annual percentage. The dollar rate was
29 mandated by the law and our current legislation requires
30



1 each contract set forth the dollars and cents of the
2 credit service charge.

3 MR. LAWRENCE: Is it fair to ask if that
4 policy is on the recommendation of your officials? If
5 your policy decision had been made to have a rate
6 disclosure as well as dollars and cents?

7 MR. GELB: Unfortunately there is a
8 discrepancy in the manner of arriving at the true annual
9 interest rate. Different repayment computations have
10 been set and each arrived at different figures. You
11 can imagine the result.

12 MR. IRWIN: May I ask you if your staff
13 people would concur in the arguments presented on the
14 difficulty of making the calculation?

15 MR. GELB: I have one feeling, that the
16 average consumer should be served in the best way possible
17 considering all the factors involved. He doesn't care
18 what percentage he is paying. All he wants to know is
19 how much would it cost him to buy this \$300.00 radio and
20 T.V. set credit wise and compare it with once source of
21 credit and the other. Generally speaking it is the low
22 income families who are buying on time, and likewise
23 it is the type of individual who has not had the college
24 education to make the computations this would require.
25 We must always consider the fact that the average
26 consumer is basically not interested in how much he is
27 paying in credit service charges. All he wants to know
28 is how much does he have to pay each month and each week.
29 Can I afford this.
30



1 MR. IRWIN: My question is really this.
2 The line of reasoning you have just expounded we have
3 heard before our committee advanced by the lenders of
4 credit. In our visit to California and also to Washing-
5 ton, in speaking with the staff people in those places
6 they didn't seem to feel that the difficulties were all
7 as great as the argument makes out. My question is
8 what is the official view here in regard to this line of
9 argument?

10 MR. GELB: We have no line of view. I
11 believe what I have told you reflects the actual
12 situation in the consumer credit field.

13 MR. IRWIN: It strikes me where it has been
14 presented to us there are two ways of expressing
15 charges that is the total dollars, the other is percentage
16 rate. In adopting the \$8.00 per \$100.00 per annum you
17 are in fact going half way in expressing a percentage
18 rate.

19 MR. GELB: We have a \$10.00 per \$100.00 per
20 year. It's an add on rate per \$100.00.

21 MR. IRWIN: The point being it is so easily
22 convertible to a true actuarial rate.

23 MR. GELB: We have given recognition to a
24 certain degree in the case of revolving credit where we
25 permit $1\frac{1}{2}\%$ per month because there is no specific length
26 of time where the buyer is obligated to meet his obligat-
27 ion. He has contracted to pay a certain amount each
28 month and has the privilege of paying the balance at
29 any time, but where you have a contract arrangement, where
30



1 the entire deal is set forth at the inception of the
2 transaction so that the consumer knows he is paying so
3 much is the best and fullest disclosure.

4 MR. IRWIN: Where it is \$8.00 per \$100.00
5 per annum it is truly comparable from lender A to B.
6 Are those requirements that is the \$8.00 per \$100.00 per
7 annum, or in the case of revolving credit $1\frac{1}{2}\%$ on the
8 balance, are those amounts or rates required to be dis-
9 closed to the borrower?

10 MR. GELB: That is the one thing I would
11 like to see enacted in our law so that full and total
12 disclosure would be available to the consumer by making
13 him alert to the maximum credit service charge that he
14 is subjecting himself to. I believe in the case of
15 personal loans, the banks, were required to set forth
16 6%.

17 MR. IRWIN: The point is it is not required
18 to be disclosed?

19 MR. GELB: No, just the dollar amount be
20 set forth.

21 MR. LAWRENCE: Has it been your experience
22 the maximum rate becomes the rate? The experience in
23 California is that the maximum rate becomes the rate.
24 There is no competition.

25 MR. SCHROEDEL: The competition would be
26 the availability of credit from other sources. In New
27 York State there is a tremendous competition for the
28 consumer loan.

29 MR. SEDGWICK: Not price wise.
30



1 MR. SCHROEDEL: There is banks discounting
2 on the purchase of automobiles possibly $4\frac{1}{4}\%$.

3 MR. SEDGWICK: Add on.

4 MR. SCHROEDEL: It's a very low rate. The
5 buyer of the automobile has his choice if his credit
6 rating is good enough to give him that leverage. If it
7 is not then he must obtain his credit through GMAC or
8 other agencies to which these dealers will assign their
9 paper.

10 MR. SEDGWICK: Where there is insurance
11 they are permitted to charge that?

12 MR. RAPPAPORT: Yes. The insurance may
13 be included in the contract, even in an automobile
14 contract. The insurance is limited to \$7.00 per \$100.00
15 per annum. In other words you have a service charge on
16 the actual amount due on the vehicle.

17 MR. SEDGWICK: You have a charge for the
18 insurance greater than they pay for insurance?

19 MR. RAPPAPORT: Yes.

20 MR. SEDGWICK: So that the seller would
21 make two profits.

22 MR. RAPPAPORT: No, he can't do that.

23 MR. LAWRENCE: Are there any safeguards
24 in regard to credit life insurance?

25 MR. RAPPAPORT: The only type of insurance
26 they can get is this group insurance and that has
27 the same provisions.

28 MR. MacDONALD: I was puzzled by the few
29 that have been licensed only 565 in the whole of New
30



1 York State.

2 MR. RAPPAPORT: In New York State a motor
3 vehicle dealer who holds \$25,000.00 of his own paper is
4 required to be licensed. A dealer dealing in goods
5 such as Macy's does require to be licensed if he holds
6 his own paper. Banks are not required to hold their
7 own paper.

8 MR. REILLY: The Retail Sales Statute was
9 enacted in 1956, what about the other one?

10 MR. SCHROEDEL: It was 1957.

11 MR. REILLY: What recommendations would you
12 make in licensing of people?

13 SCHROEDEL: It's not our decision. Of
14 course, we have to operate in the manner which they set
15 out.

16 MR. REILLY: Since 1956 or 1957, do you
17 have any suggestions we could consider?

18 MR. GELB: We could tell you a lot of things
19 unofficially.

20 MR. SCHROEDEL: I feel we have the leverage.
21 Any time we have a complaint we can go in there and
22 tear his house apart and examine it, but whether the
23 penalties are sufficient under our law I don't know.
24 These are things you have to consider, what is most
25 applicable to your own situation.

26 MR. MacDONALD: What about the repayment
27 of the total amount which they have chiselled?

28 GELB: We have some things of that nature
29 where he may sue for double the amount. We have it in
30



1 our excessive rent clause.

2 MR. MacDONALD: In California they indicated
3 to us there was historical reasons as to why automobile
4 contracts were separate from general contracts, but that
5 now they feel it would be wiser if it was all brought
6 under one Statute. What is the explanation for your
7 double-barrelled approach here?

8 MR. SCHROEDEL: I think it still holds.

9 MR. GELB: I would say it is a distinction
10 without a difference at this time because we have had
11 several years of experience in administering the law and
12 we found there is no essential difference between the
13 nature of the complaints we have received from automobile
14 buyers, excluding quality and performance, than is found
15 amongst the others. If you want to separate the amount
16 of the credit service charge and allocate a different
17 amount for each type of merchandise that would be no
18 tremendous obstacle in making or drafting your legisla-
19 tion. I understand some States do that. It would make
20 it easier to administer, but there is a number of
21 shortcomings.

22 MR. WHITE: What are the shortcomings?

23 MR. GELB: I think there is a lack of
24 publicity about the existence of laws. I would suggest
25 that you give consideration where they draft such a
26 Statute that some indication be given to the consumer
27 where he may go to complain in the event he has to.
28 That in itself, would be, in effect, the best type of
29 publicity you could obtain. Just as we require certain
30



1 pieces of data to be printed on every instalment contract.
2 It has come to our attention in many ways that the
3 ignorance of the existence of the law which has been
4 enacted to protect the consumer is unknown to the person
5 who needs it most, the consumer. So we have been thinking
6 of making it a requirement. It is not official.

7 MR. REILLY: You aren't afraid of a deluge
8 of crack pots?

9 MR. GELB: No, the more information we can
10 give our consumer the better off we are. The consumer
11 is aware of what he may be charged.

12 MR. LAWRENCE: Have you ever asked them
13 to hand out the pamphlet?

14 MR. GELB: Some consumer groups have seen
15 fit to distribute these. One of the biggest problems
16 a sales finance company has is when the consumer prepays
17 his contract. The average consumer believes if he has
18 a two year contract and he pays in one year he is
19 automatically entitled to a 50% refund. When a sales
20 finance company has any problem with the consumer along
21 that line a presentation of this booklet to the consumer
22 makes him realize what he is entitled to.

23 MR. LETHERBY: I think this is very helpful
24 but what would be your thoughts that at some level of
25 education young people should get some briefing on this
26 subject?

27 MR. RAPPAPORT: We have a number of schools
28 who have requested this booklet. Of course, we would
29 like to see more of it.
30



1 MR. LETHERBY: They teach people how to
2 spend money.

3 MR. MacDONALD: Undoubtedly consumer protect-
4 ion laws like this will save the consumer millions of
5 dollars but I was rather puzzled by the fact that the
6 savings as a result of actions you took were only
7 \$39,000.00 for 3,400 consumers.

8 MR. GELB: That is what has come to our
9 attention. There is a large segment that don't know
10 about our existence.

11 MR. SCHRODEL We don't have any statistics
12 as to how much of this consumer paper is held by banks
13 or by the retailers themselves, or sellers. We do know
14 in a rough calculation that all the licensees last year
15 in aggregate held only less than a billion dollars of
16 of this type of paper.

17 MR. MacDONALD: We were told in Washington,
18 74 billion in the nation.

19 MR. SCHROEDEL: Less than one billion in
20 New York. I would say it is rather small. The licensees
21 understand the law, they know what they may do and must
22 do. I would say the 3,400 who shared in this \$39,000.00
23 many of those were through examinations. We never saw
24 those people.

25 MR. RAPPAPORT: We ask for an annual report
26 from these licensees and you should see the replies we
27 get. When the law was enacted the dealers were afraid
28 this would result in a witch hunt. They tied the hands
29 of the superintendents until you could only make an
30



1 investigation of a written complaint. We haven't fully
2 overcome this.

3 MR. LAWRENCE: How do you know there is
4 only a billion in the State?

5 MR. SCHROEDEL: The billion was the result
6 of a compilation of the examination reports in dollar
7 amounts.

8 MR. LAWRENCE: Is there another State body
9 that does this?

10 MR. SCHRODEL: The Federal Reserve.

11 MR. LAWRENCE: You rely on their statistics?

12 MR. SCHROEDEL: We are more concerned with
13 compliance rather than the statistical end of it.

14 MR. LAWRENCE: We have been looking at the
15 British legislation, at the cooling off period on door
16 to door sales. Have you people been looking at this,
17 considering this cooling off period with regard to any
18 credit contract?

19 MR. GELB: In connection with dance instruct-
20 ions we have a cooling off period of 48 to 72 hours.
21 We have had a considerable amount of complaints about
22 door to door salesmen and we, therefore, enacted legis-
23 lation which has become effective this past year. Previous
24 to that if a retail instalment contract was signed in
25 this State but it was accepted in Illinois, that partic-
26 ular contract was not subject to our law because it was
27 not entered into in this State. As a result of that we
28 had the law amended which said if a contract was executed
29 by the buyer in this State through the medium of a
30



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1 canvasser or sales person in this State regardless of
2 where it is accepted it is considered to be a retail
3 sales contract which is subject to our law.

4 MR. LAWRENCE: What about mail order and
5 catalogue sales?

6 MR. GELB: We have no specific provision with
7 regard to catalogue sales. By and large the big three
8 mail order houses have dealt on the square with the
9 consumer. We have had no problem whatsoever.

10 MR. WHICHER: I think you mentioned some banks
11 in the State were loaning money for automobile purchases
12 at $4\frac{1}{4}\%$ and $4\frac{1}{2}\%$ which of course is very low. Is the
13 dollar value add on put on the note. It says $4\frac{1}{2}\%$, is
14 the dollar amount of interest put on there too?

15 MR. RAPPAPORT: If the note shows the rate
16 of interest doesn't exceed 6% discount.

17 MR. WHICHER: It doesn't say the interest would
18 be \$100.00?

19 MR. RAPPAPORT: The interest rate would be
20 the dollar amount charged to the consumer.

21 MR. WHICHER: In other words, the purchaser
22 can compare the dollar value with the finance company?

23 MR. RAPPAPORT: Right.

24 MR. WHICHER: If the interest rate is on
25 the bank note, even if it was the maximum why shouldn't
26 that be put on so that the man knows exactly what he's
27 paying?

28 MRS. MATHES: It says it doesn't exceed
29 the maximum. It doesn't show the amount he has paid.
30



1 MR. WHICHER: In the bank it shows $4\frac{1}{2}\%$.

2 MR. GELB: Our law requires that the
3 promissory note, that the loan shall state that the
4 interest rate on this transaction doesn't exceed 6%
5 simple interest. It doesn't say the interest rate on
6 this transaction is X percent.

7 MR. WHICHER: How does the purchaser know
8 it is $4\frac{1}{2}\%$?

9 MR. GELB: The banks are advertising in the
10 newspaper that the rate is $4\frac{1}{4}\%$.

11 MR. WHICHER: A few minutes ago you said it
12 was your experience the purchaser doesn't care how much
13 the interest rate is, he only wants to know how much
14 he pays at the end of the month.

15 MR. GELB: There are two different aspects
16 in connection with the retail instalment plan. One, is
17 what the retail buyer feels he can afford to pay. He is
18 only concerned can he within his income meet the expenses
19 he is incurring. I am talking about the average run of
20 the mill consumer, I am not talking about the college
21 professor. His only concern is can I afford to pay
22 this \$12.00 a month or \$75.00 a month for this.

23 MR. WHICHER: Would he be interested in
24 knowing whether it was a 10% or a 20% rate. It seems to
25 me he would.

26 MR. GELB: They are not as sophisticated
27 as you.

28 MR. WHICHER: In the State of New York how
29 much automobile purchasing would be done, with financing,
30



1 would it be 90%? Supposing it was 90%, there must be a
2 lot of sophisticated purchasers in that 90%?

3 MR. GELB: The average person is only
4 concerned with dollars. It doesn't make any difference
5 to the average consumer, he doesn't care whether you
6 call it 5% or 12%, it's of no consequence to him. He
7 pays out good hard cash. If you are buying something
8 for \$2,000.00 and your particular seller wants \$200.00
9 on this \$2,000.00, but if you go to another seller and
10 in order for you to pay that \$2,000.00 he only wants
11 \$180.00, you can compare that \$200.00 to the \$180.00
12 without having the percentage.

13 MR. MacDONALD: Isn't it your objective
14 to develop sophistication among all consumers. If your
15 general objective is to develop sophistication---you said
16 if the person is a university graduate he can do it.
17 However, if your general objective is to develop your
18 sophisticated consumer and if the interest rate gives
19 him a fuller disclosure as to what the amount is and
20 his ability to shop, what harm is there in this process
21 of sophistication and making it available?

22 MR. SCHROEDEL: I don't know, I can't tell
23 you.

24 MR. RAPPAPORT: Does the average person
25 know when you talk about 6%, do you mean simple interest
26 or do you mean add on?

27 MR. MacDONALD: The general point I am
28 making is he doesn't. That's part of our problem.

29 MRS. MATHES: I would like to say this. If
30



1 you were to choose between a rate and a dollar disclosure,
2 obviously the dollar disclosure would be a better and
3 a more full disclosure. If you prefer to have both
4 disclosures that would be a benefit for consumer protection.
5 The dollar disclosure is the one you must have on
6 your instrument.

7 MR. LAWRENCE: Are we going to hear later
8 about personal loan protection?

9 MR. SCHRODEL: I have been instructed on
10 this line, they are licensed. They have maximum rates
11 set for them as well. These are direct loans between
12 the purchaser and seller. We have legislation.

13 MR. KAVANAGH: It goes back to 1932.

14 MR. SCHRODEL: We do have copies of the
15 licensed lender law, and the regulations. These are
16 mostly for people who make direct loans to borrowers,
17 banking loans, government consumer loans.

18 MR. LAWRENCE: Is there some type of
19 disclosure by the banks as well?

20 MRS. MATHES: There is under 108. There
21 is a provision that in each application for a loan and
22 in each note instrument or other evidence of debt by a
23 borrower the rate of interest charged shall be expressed,
24 (1) as a rate in dollars per annum discount for \$100.00,
25 face amount, or, (2), as a rate not exceeding \$6.00 per
26 annum discount for \$100.00 face amount.

27 MR. LAWRENCE: Why don't you have some type
28 of disclosure in regard to all your consumer credit?

29 MR. SCHRODEL: I think it's primarily
30



1 historical. The consumer deals with the seller. When
2 a person goes to a bank and makes a direct loan he is
3 going to borrow money, he is not going to buy an article.

4 MR. LAWRENCE: Isn't that buying money?

5 MR. SCHROEDEL: It's not considered as that.

6 MR. LAWRENCE: It is basically the same
7 problem. We have the opportunity of starting out from
8 scratch. The only thing that is restrictive is the
9 constitutional element. You have one but it's not the
10 same as ours. The banks are under Federal jurisdiction
11 in Canada and certain of the trust companies. We have
12 that problem. I think whatever we do should be universal,
13 it should apply to all procedures of credit down the line
14 and it's darn unfair if we don't.

15 MR. KERR: What is the most frequent complaint
16 by borrowers?

17 MR. SCHROEDEL: In the annual report we
18 had a calculation. In 103 it gives the nature of the
19 complaints. If you look at that you will get a good
20 idea as to what is involved.

21 MR. KERR: I think in this Act you require
22 a notice of assignment. You give the borrower a notice
23 of the assignment. It's on the back is it ?

24 MR. RAPPAPORT: A notice of assignment must
25 be mailed to the borrower by the financing institution.
26 It's not on the back.

27 MR. LAWRENCE: Doesn't it have to be an
28 acknowledgment?

29 MR. RAPPAPORT: The law does require---it
30



1 gives them an opportunity to make the complaint to the
2 financing institution within ten days after receiving
3 this notice, in which case the financing institution
4 does not become a holder in due course.

5 MR. KERR: As far as the acceptance corpor-
6 ation is concerned will the assignee be subject to the
7 original contract between the borrower and lender?

8 MRS. MATHES: Only if he doesn't receive
9 notice from the borrower within ten days, after the
10 buyer has been informed of this assignment, of any
11 irregularities or claims, buyer as against original
12 seller. If the buyer has not given notice to the
13 assignee within the ten days the assignee becomes a
14 holder in due course.

15 MR. GELB: If by virtue of the provisions
16 in the contract the seller is supposed to do something
17 for the buyer you have a ten day period, then the
18 assignee buys it subject to those provisions.

19 MR. LAWRENCE: Why ten days?

20 MR. GELB: It's a reasonable length of
21 time.

22 MRS. MATHES: The assignee can hold this
23 for ten days. If some complaint comes in he can reject
24 it and say, we are not interested in it.

25 MR. LAWRENCE: Do you think it would restrict
26 the paper market if you had any limitations?

27 MR. GELB: On page 24 of your booklet, in
28 the case of a retail instalment obligation or contract
29 by the terms of which the seller agrees to furnish---if
30



1 a customer buys a television set with the understanding
2 they are supposed to get 90 days free service on the
3 set---of course, the seller will assign his contract
4 within a few days after the contract is entered into,
5 and the finance company sends the notice of assignment,
6 and the buyer doesn't respond within those ten days, but
7 30 days later that set is on the blink, and according
8 to the average consumer no play, no pay. The finance
9 company can't take the position they are a holder in
10 due course. By virtue of the original contract the
11 seller obligated himself to it.

12 MR. SEDGWICK: We had a racket in Ontario
13 where the seller sold a knitting machine to the consumer
14 and then agreed to buy the product. Then they assigned
15 the paper to a finance company which takes it in good
16 faith. The provision you have just read would prevent
17 that.

18 MR. IRWIN: I would like to ask you, in view
19 of your legislation, whether you require in retail sales
20 a charging of service charges, so many dollars per \$100.00.
21 Have you found this formula acceptable to the trade,
22 like the big department store, have they found this
23 acceptable, and the sales finance companies have they
24 found it agreeable?

25 MR. SCHROEDEL: Generally, I think, yes.

26 MR. RAPPAPORT: Some of them do compete
27 for the business. GMAC, if a person is qualified they
28 will compete with the bank for this business. They will
29 agree to give it to him for the same price.
30



1 MR. IRWIN: I have the further point.

2 Through your experience here, from department stores
3 and sales finance companies, from lenders directly of
4 cash loans, you made the argument that any type of
5 government regulation would be objectionable to the
6 trade. You have regulated the trade in these respect,
7 do you find the trade is still carrying on sort of an
8 argument?

9 MR. RAPPAPORT: I don't know what your con-
10 dition is in your particular Province. Here the large
11 department stores were instrumental in enacting the law.
12 We found no objection.

13 MR. SCHROEDEL: The greatest objection comes
14 from the consumer when he is being charged the amount
15 in the contract.

16 MR. IRWIN: In other words you don't find
17 any pressure on the part of the business community to
18 have these laws repealed?

19 MR. SCHRODEL: I think they are very much
20 accepted. I think the days of the abusive seller are
21 pretty well gone. There are still abuses.

22 MR. WHICHER: In personal loans is there
23 any limit to the amount of interest you can charge?

24 MR. KAVANAGH: Yes, it's $2\frac{1}{2}\%$ per month, 2%,
25 and $\frac{3}{4}$ of 1% on the balance of \$300.00 to \$800.00, and
26 this must be spelled out in the contract.

27 MR. LAWRENCE: We have a Federal small loans
28 act limited to \$1,500.00.

29 MR. SCHROEDEL: We will give you a copy of
30



1 that with the regulations.

2 MR. GELB: I have had the misfortune of
3 reading many thousands of contracts for the purpose of
4 ascertaining illegal provisions therein in connection
5 with this Uniform Commercial Code. The secretary of
6 State of the State of New York has promulgated what is
7 known as an approved standard finance statement as
8 contrasted with any other type of finance statement, and
9 in order to induce the finance people to utilize the
10 standard form there is a differentiation. If you record
11 the standard form it's only \$2.00 and if you record
12 anything other than the standard form it's \$3.00. By
13 making a standard form of contract you do two things, you
14 make the retail seller aware as to what is required of
15 him and two, you know the individual buyer will not be
16 subject to illegal provisions. Different States have
17 done it in connection with your insurance policies. There
18 is a standard insurance policy form. We have given much
19 latitude in the drafting of the retail instalment form
20 and as a result it has caused a lot of confusion so that
21 I would urge you give consideration to the use of a
22 standard form of contract containing specific provisions
23 which will be of great assistance to the agency.

24 MR. LAWRENCE: Where can we get a model form?

25 MR. GELB: There is no such animal. We
26 have forms in use and they found, for example, that each
27 of the retail seller with the blessings of their counsel
28 has drafted a different contract form. I think you can
29 understand the multitude of forms that goes through the
30



1 department for review. As a matter of fact it got so
2 bad at one time we issued a supervisory circular letter
3 because we found so many irregularities.

4 MR. LAWRENCE: I am suggesting perhaps you
5 could suggest to us which one is a good one?

6 MR. GELB: There is a specific type that is
7 appropriate for a motor vehicle transaction as contrasted
8 with an all goods transaction. The average finance
9 agency is not concerned primarily with repossession
10 because repossession is a very small part of the unpaid
11 balance.

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13 -----Meeting adjourned.

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